

## **Joint Millennium Fund Committee Minutes**

### **Wednesday, January 18<sup>th</sup>, 2006**

### **State Capitol, JFAC Room, #328**

The meeting was called to order at 3:00 pm on January 18<sup>th</sup>, 2006, by Co-chair Lodge. Other committee members present were: Senators Denton Darrington, Dean Cameron, Elliot Werk, Kate Kelly, and Representatives Dennis Lake, Janice McGeachin, Jim Clark, Margaret Henbest and John Rusche. Also in attendance were Legislative Services staff member Cathy Holland-Smith, Principal Budget Analyst, and Lisa Kauffman, Staff Secretary.

**Co-chair Lodge** welcomed the committee and stated that the purpose of this meeting is to decide which programs we would like to fund and then present our recommendations to the Joint Finance Appropriations Committee (JFAC) on January 20, 2006. The Co-chairs have determined that the Millennium Fund Committee will make a recommendation on both the use of the Millennium Fund Income Fund and the Governor's proposal to use money from the Permanent Millennium Fund to pay for the state's share of the Catastrophic Health Care Program (CAT Fund) at the JFAC hearing on Friday. **Co-chair Lake** commented on the issue of constitutionalization of the Millennium Fund and since there are challenges to the fund this year and ones that this committee needs to address, he feels that there needs to be a separate meeting on this issue alone.

**Cathy Holland-Smith**, Budget & Policy Analyst, reviewed the re-evaluation of future earnings. The pink handout shows the 'rosy' outlook which was applicable at our November meeting in 2005, which were projected earnings of 8%. At that time the assumption was we would only be spending from the Income Fund. We have the Permanent Fund which is not generally subject to appropriation and we have the Income Fund and that is where the 5% earnings each year go to and we appropriate from that fund. The Governor has recommended that the legislature, through JFAC, take in FY 2007 \$18.7M from the Permanent Fund and appropriate that to the CAT Fund. In subsequent years the Governor has recommended that there be a cap of \$20M on this transfer. Two statutory changes would need to take place: 1. The statute that authorizes the Permanent Fund would need to be changed because it does not say that it is subject to appropriation; and 2. To modify the statutes that authorize the CAT Fund to include a cap of \$20M. The second green handout shows a 4% projected earnings outlook. That is the most recent and up to date information available.

**Liza Carberry**, Investment Manager, State Treasurer's Office, updated the committee on the change in the investment strategy for the fund. Ms. Carberry stated that they had been managing the fund since it's inception and were told at the beginning that it was to be treated as a long term horizon or similar to an endowment fund. The original types of investments were a mixture of equities and fixed income with a long term horizon. When there was a budget shortfall and part of the funds were used to cover that shortfall it hurt the earnings. When

you have a long term type fund it really needs to be in an endowment fund where it cannot be touched. If you're in a long term horizon you don't want to have to touch those funds in an inappropriate moment and that is what happened. When there is a shortfall in the economy then the stock market is probably not doing well either so when those funds needed to be liquidated the losses were in the range of approximately \$7M. When we started to accumulate more funds, and not knowing what the legislature planned to do with it, we put it in fairly short term fixed income vehicles so it would provide liquidity in case it was needed with no large losses. When you are in that situation you will make less return on a long term horizon.

**Shawn Nydegger**, Investment Officer, State Treasurer's Office, said that the Millennium Fund portfolio is invested in all fixed income, the largest portion of it being invested in the Idle Fund with other agencies because they didn't know if the legislature was going to need it like before so we can liquidate it without losses. They will keep the portfolio the way it is until this committee decides if it wants to endow the funds for long term horizon investing.

**Co-chair Lake** commented that if we endow the fund then we can count on an 8% strategy which is legitimate but if we keep as we are now then we are looking at a 4-4.5% return. **Ms. Carberry** replied that would be the forecast for one year out and would probably be a bit higher than the 4% projected.

**Cathy Holland-Smith** reviewed the Millennium Fund Committee applicants and the order of rank using two different methods. The first method was how the committee ranked them in order of prioritization which is the adjusted point column. The second approach was ranked by adjusted points, then throwing out the lowest and highest vote. The Governor's Recommendation was a total of \$1,274,000 Millennium Fund dollars.

**David Hahn**, Division of Financial Management, spoke to the Governor's Recommendation. First, he addressed the Income Fund. In the past the Governor has not recommended non-state entity requests. They feel the state agencies would have statewide impact due to the resources available to them to implement the programs and the ability to track expenditures on a regular basis if a state agency is the administrator. The Governor felt that in order to pursue structural balance in the off years that the Millennium Fund was the best place to put the CAT Fund expenditures and then cap the increases to \$20M. The reason for the cap was to emphasize the need for county or local state discussion on these issues. What the Governor has done is to put this on the table in a form of a recommendation. There has not been legislation forthcoming yet in terms of what **Ms. Holland-Smith** has discussed in terms of the need for the legislation, and they have not heard anything from the Idaho Association of Counties on this matter. The Governor's office is willing to talk to any of the legislators or the Counties on this matter and he feels that the counties should be a party in the continual increases that the state is absorbing on an ongoing basis.

**Representative Henbest** commented that it's ironic that we're talking about property taxes being a local control issue and then we're shifting increased burden to the counties and the property tax payer. **Mr. Hahn** replied that there is a balance there and he encouraged the committee to talk to either **Brian Whitlock** or **Kent Kunz** about those issues.

**Senator Werk** wondered what the merit is in capping the CAT Fund and shifting those costs or is there merit to pursuing structural deficits by using the CAT Fund to make up the difference. **Mr. Hahn** replied that there is merit in both, in capping it and bringing the counties in on the discussion of sharing some of this increase and there is merit in pursuing structural balance between revenues and expenditures in the out years. That is a top priority of the Governor. **Senator Werk** then asked if it's the Governor's position that the structural deficit does not disappear unless we use Millennium Fund money to shore up the budget. **Mr. Hahn** said if we keep with the Governor's Recommendation and priorities throughout pulling \$18M this year and \$20M in the off years it will create that structural imbalance that he is trying to avoid. **Senator Werk** wanted to clarify that the structural deficit remains given the Governor's priority unless we use Millennium Fund money to shore that up. **Mr. Hahn** said that in the recommendation they were pursuing structural balance between expenditures and revenues in the General Fund and the out years and if we put this \$20M on the General Fund that structural balance will be jeopardized.

**Cathy Holland-Smith** asked the committee for their recommendations and explained the voting ballot.

**Senator Werk** made an original motion to accept the following programs: Youth Tobacco Investigations, \$94,000; Counter Marketing, \$300,000; GRASP, \$30,000; Smoking Cessation with Public Health Districts, \$500,000; Teens Against Tobacco Use (TATU) \$77,900; and Youth Courts/Status Courts, \$270,000, for a total of \$1,271,900. Motion seconded by **Representative McGeachin**.

**Co-Chair Lake** made a substitute motion to accept the following programs: Youth Tobacco Investigations, \$94,000; Counter Marketing, \$365,000; GRASP, \$30,000; Smoking Cessation with Public Health Districts, \$465,000; Teens Against Tobacco Use (TATU) \$50,000; and Youth Courts/Status Courts, \$270,000, for a total of \$1,274,000. Motion died for lack of a second.

Roll call vote on **Senator Werk's** original motion was unanimous.

**Representative Henbest** made a comment about the GRASP program. They are doing great work and she hopes they will view this as bridge funding because they have been funded in the past and lost those funds and they are trying to sustain themselves and have been doing that so she hopes that they will be

encouraged enough to look for other sources of funding to keep this program viable.

**Representative Henbest** made a motion that the committee recommend to JFAC that it not have a permanent expenditure of \$20M coming out of the Millennium Fund for the purposes of the CAT Fund. Motion seconded by **Representative Clark**. Senator Werk stated it might be better to not state a specific amount in the motion and **Representative Henbest** agreed to amend her motion to read that the committee recommends to JFAC that it not have a permanent expenditure coming out of the Millennium Fund for the purposes of the CAT Fund.

Roll call vote on **Representative Henbest's** original motion was unanimous.

Motion to adjourn by **Senator Werk**, seconded by **Representative Henbest**.

Committee adjourned at 4:53 pm.